

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM
10-Q
1ST QUARTER 2000

(Mark one)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2000

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number 1-8606

Bell Atlantic Corporation		
(Exact name of registrant as specified in its charter)		
Delaware (State of incorporation)	23-2259884 (I.R.S. Employer Identification No.)	
1095 Avenue of the Americas New York, New York (Address of principal executive offices)	10036 (Zip Code)	Registrant's telephone number, including area code: (212) 395-2121

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

At March 31, 2000, 1,545,656,398 shares of the registrant's Common Stock were outstanding, after deducting 30,589,927 shares held in treasury.

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Part I - Financial Information**Item 1. Financial Statements****Condensed Consolidated Statements of Income**
Bell Atlantic Corporation and Subsidiaries

(Dollars in Millions, Except Per Share Amounts) (Unaudited)	Three Months Ended March 31,	
	2000	1999
Operating Revenues	\$8,534	\$7,967
Operating Expenses		
Employee costs, including benefits and taxes	2,068	2,018
Depreciation and amortization	1,620	1,504
Other operating expenses	2,641	2,367
	6,329	5,889
Operating Income	2,205	2,078
Income from unconsolidated businesses	123	34
Other income and (expense), net	55	19
Interest expense	370	315
Mark-to-market adjustment for exchangeable notes	(825)	-
Income before provision for income taxes	1,188	1,816
Provision for income taxes	457	674
Net Income	\$ 731	\$1,142
Basic Earnings Per Common Share	\$.47	\$.74
Weighted-average shares outstanding (in millions)	1,551	1,553
Diluted Earnings Per Common Share	\$.46	\$.72
Weighted-average shares - diluted (in millions)	1,575	1,582
Dividends declared per common share	\$.385	\$.385

See Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheets
Bell Atlantic Corporation and Subsidiaries

Assets

(Dollars in Millions) (Unaudited)	March 31, 2000	December 31, 1999
Current Assets		
Cash and cash equivalents	\$ 360	\$ 1,097
Short-term investments	628	839
Accounts receivable, net of allowances of \$597 and \$619	7,085	7,025
Inventories	589	664
Prepaid expenses	848	673
Other	350	298
	9,860	10,596
Plant, Property and Equipment	90,810	89,238
Less accumulated depreciation	51,061	49,939
	39,749	39,299
Investments in Unconsolidated Businesses	8,207	6,275
Other Assets	8,236	6,444
Total Assets	\$ 66,052	\$ 62,614

See Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Balance Sheets
Bell Atlantic Corporation and Subsidiaries

Liabilities and Shareowners' Investment

(Dollars in Millions, Except Per Share Amounts) (Unaudited)	March 31, 2000	December 31, 1999
Current Liabilities		
Debt maturing within one year	\$ 5,812	\$ 5,455
Accounts payable and accrued liabilities	7,000	6,465
Other	1,489	1,547
	14,301	13,467
Long-term Debt	20,149	18,463
Employee Benefit Obligations	8,958	9,326
Deferred Credits and Other Liabilities		
Deferred income taxes	4,416	3,892
Unamortized investment tax credits	193	197
Other	777	730
	5,386	4,819
Minority Interest, Including a Portion Subject to Redemption Requirements	425	458
Preferred Stock of Subsidiary	201	201
Shareowners' Investment		
Series preferred stock (\$.10 par value; none issued)	--	--
Common stock (\$.10 par value; 1,576,246,325 shares and 1,576,246,325 shares issued)	158	158
Contributed capital	13,691	13,550
Reinvested earnings	2,895	2,806
Accumulated other comprehensive income	1,348	450
	18,092	16,964
Less common stock in treasury, at cost	1,026	640
Less deferred compensation - employee stock ownership plans	434	444
	16,632	15,880
Total Liabilities and Shareowners' Investment	\$ 66,052	\$ 62,614

See Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Statement of Changes in Shareowners' Investment
Bell Atlantic Corporation and Subsidiaries

(Dollars in Millions and Shares in Thousands) (Unaudited)	Three Months Ended March 31, 2000	
	Shares	Amount
Common Stock		
Balance at beginning and end of period	1,576,246	\$ 158
Contributed Capital		
Balance at beginning of period		13,550
Shares issued:		
Employee plans		20
Issuance of stock by subsidiaries		121
Balance at end of period		13,691
Reinvested Earnings		
Balance at beginning of period		2,806
Net income		731
Dividends declared		(595)
Shares issued:		
Employee plans		(49)
Tax benefit of dividends paid to ESOPs		2
Balance at end of period		2,895
Accumulated Other Comprehensive Income (Loss)		
Balance at beginning of period		450
Foreign currency translation adjustments, net of tax		(61)
Unrealized gains on securities, net of tax		959
Balance at end of period		1,348
Treasury Stock		
Balance at beginning of period	23,569	640
Shares purchased	9,117	506
Shares distributed:		
Employee plans	(2,076)	(119)
Shareowner plans	(20)	(1)
Balance at end of period	30,590	1,026
Deferred Compensation - ESOPs		
Balance at beginning of period		444
Amortization		(10)
Balance at end of period		434
Total Shareowners' Investment		\$ 16,632

See Notes to Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Cash Flows
Bell Atlantic Corporation and Subsidiaries

(Dollars in Millions) (Unaudited)	Three Months Ended March 31,	
	2000	1999
Cash Flows From Operating Activities		
Net income	\$ 731	\$ 1,142
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,620	1,504
Mark-to-market adjustment for exchangeable notes	825	--
Deferred income taxes, net	(5)	218
Income from unconsolidated businesses	(123)	(34)
Dividends received from unconsolidated businesses	25	29
Amortization of unearned lease income	(33)	(37)
Investment tax credits	(4)	(6)
Other items, net	90	33
Changes in certain assets and liabilities, net of effects from acquisition/disposition of businesses	(10)	(363)
Net cash provided by operating activities	3,116	2,486
Cash Flows From Investing Activities		
Capital expenditures	(2,155)	(1,711)
Investments in unconsolidated businesses, net	(1,038)	(106)
Investments in notes receivable	(979)	--
Net change in short-term investments	208	245
Proceeds from disposition of businesses	41	612
Other, net	25	(38)
Net cash used in investing activities	(3,898)	(998)
Cash Flows From Financing Activities		
Proceeds from borrowings	908	--
Principal repayments of borrowings and capital lease obligations	(284)	(26)
Net change in short-term borrowings with original maturities of three months or less	588	(980)
Dividends paid	(598)	(598)
Proceeds from financing of cellular assets	--	380
Proceeds from sale of common stock	58	151
Purchase of common stock for treasury	(506)	(208)
Net change in outstanding checks drawn on controlled disbursement accounts	(121)	(76)
Net cash provided by (used in) financing activities	45	(1,357)
Increase (decrease) in cash and cash equivalents	(737)	131
Cash and cash equivalents, beginning of period	1,097	237
Cash and cash equivalents, end of period	\$ 360	\$ 368

See Notes to Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements
Bell Atlantic Corporation and Subsidiaries
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared based upon Securities and Exchange Commission (SEC) rules that permit reduced disclosure for interim periods. These financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown including normal recurring accruals. The results for the interim periods are not necessarily indicative of results for the full year. For a more complete discussion of significant accounting policies and certain other information, you should refer to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 1999.

We have reclassified certain amounts from prior year's data to conform to the 2000 presentation.

2. Recent Accounting Pronouncements

FASB Accounting Standard – Derivatives and Hedging Activities

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that all derivatives be measured at fair value and recognized as either assets or liabilities on our balance sheet. Changes in the fair values of derivative instruments will be recognized in either earnings or comprehensive income, depending on the designated use and effectiveness of the instruments. The FASB amended this pronouncement in June 1999 to defer the effective date of SFAS No. 133 for one year. We must adopt SFAS No. 133 no later than January 1, 2001.

On March 3, 2000, the FASB issued a Proposed SFAS, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which would amend SFAS No. 133. The proposed amendments address certain implementation issues and relate to such matters as the normal purchases and normal sales exception, the definition of interest rate risk, hedging recognized foreign-currency-denominated debt instruments, and intercompany derivatives.

We are currently evaluating the provisions of SFAS No. 133 and the proposed amendments. The impact of adoption will be determined by several factors, including the specific hedging instruments in place and their relationships to hedged items, as well as market conditions at the date of adoption.

FASB Interpretation – Stock Compensation

In March 2000, the FASB issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation." Interpretation No. 44 was issued in order to clarify certain issues arising from Accounting Principles Board (APB) Opinion No. 25 "Accounting for Stock Issued to Employees," which was previously issued in October 1972. Interpretation No. 44 is effective July 1, 2000, but certain conclusions cover specific events that occur either after December 15, 1998 or January 12, 2000.

The main issues addressed by Interpretation No. 44 are: (a) the definition of an employee for purposes of applying APB Opinion No. 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination.

We do not expect that Interpretation No. 44 will have a material impact on our results of operations or financial position.

SEC Staff Accounting Bulletin – Revenue Recognition

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," which currently must be adopted by June 30, 2000. SAB No. 101 provides additional guidance on revenue recognition, as well as criteria for when revenue is generally realized and earned, and also requires the deferral of incremental direct selling costs. We are currently assessing the impact of SAB No. 101 on our results of operations and financial position.

3. Agreement with Metromedia Fiber Network, Inc.

On March 6, 2000, we invested approximately \$1.7 billion in Metromedia Fiber Network, Inc. (MFN), a domestic and international provider of dedicated fiber optic networks in major metropolitan markets. This investment included approximately \$715 million to acquire approximately 9.5% of the then outstanding equity of MFN through the purchase of newly issued shares at \$28 per share. We also purchased approximately \$975 million in subordinated debt securities convertible at our option, upon receipt of necessary government approvals, into common stock at a conversion price of \$34 per share or an additional 9.6% of the then outstanding equity of MFN. This investment completed a portion of our previously announced agreement with MFN, which included the acquisition of approximately \$550 million of long-term capacity on MFN's fiber optic networks, beginning in 1999 through 2002. Of the \$550 million, 10% was paid in November 1999 and 30% will be paid each October from 2000 through 2002.

4. Marketable Securities

We have investments in marketable securities, primarily common stocks and convertible debt securities, which are considered "available-for-sale" under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." These investments have been included in our balance sheet in Investments in Unconsolidated Businesses, Other Assets and Short-term Investments.

Under SFAS No. 115, available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses (net of income taxes) recorded in Accumulated Other Comprehensive Income (Loss). The fair values of our investments in marketable securities are determined based on market quotations.

The table below shows certain summarized information related to our investments in marketable securities.

		Gross Unrealized	Gross Unrealized	
(Dollars in Millions)	Cost	Gains	Losses	Fair Value
At March 31, 2000				
Investments in unconsolidated businesses	\$ 731	\$2,671	\$ -	\$3,402
Other assets	975	681	-	1,656
Short-term investments	37	-	(2)	35
	\$1,743	\$3,352	\$(2)	\$5,093
At December 31, 1999				
Investments in unconsolidated businesses	\$ 367	\$1,892	\$ -	\$2,259
Short-term investments	38	1	(2)	37
	\$ 405	\$1,893	\$(2)	\$2,296

Our investments in marketable securities increased from December 31, 1999 as a result of our purchase of MFN common shares and subordinated debt securities (see Note 3).

One half of our total MFN shares are deemed to be "available for sale" securities. Accordingly, this portion of our investment in MFN shares has been adjusted from a carrying value of \$357 million to its fair value of \$1,236 million at March 31, 2000. This increase in the value of our investment has been recorded in Investments in Unconsolidated Businesses. The unrealized holding gain of \$571 million (net of income taxes of \$308 million) has been recognized in Accumulated Other Comprehensive Income (Loss). The remaining half of our investment in MFN shares must be held for a period longer than one year and therefore is being carried at cost.

Our investment in MFN's subordinated debt securities also qualifies as "available for sale" securities and, accordingly, this investment has been adjusted from a carrying value of \$975 million to its fair value of \$1,656 million at March 31, 2000. This increase in the value of our investment has been recorded in Other Assets. The unrealized holding gain of \$443 million (net of income taxes of \$238 million) has been recognized in Accumulated Other Comprehensive Income (Loss).

5. Commitments and Contingencies

In connection with certain state regulatory incentive plan commitments, we have deferred revenues which will be recognized as the commitments are met or obligations are satisfied under the plans. In addition, several state and federal regulatory proceedings may require our operating telephone subsidiaries to refund a portion of the revenues collected in the current and prior periods. There are also various legal actions pending to which we are a party and claims which, if asserted, may lead to other legal actions. We have established reserves for specific liabilities in connection with regulatory and legal matters that we currently deem to be probable and estimable.

We do not expect that the ultimate resolution of pending regulatory and legal matters in future periods will have a material effect on our financial condition, but it could have a material effect on our results of operations.

6. Debt

Exchangeable Notes

In February 1998, our wholly owned subsidiary Bell Atlantic Financial Services, Inc. (FSI) issued \$2,455 million of 5.75% senior exchangeable notes due on April 1, 2003 (TCNZ exchangeable notes). The TCNZ exchangeable notes are exchangeable into 437.1 million ordinary shares of TCNZ stock at the option of the holder, beginning on September 1, 1999. The exchange price was established at a 20% premium to the TCNZ share price at the pricing date of the offering. Upon exchange by investors, we retain the option to settle in cash or by delivery of TCNZ shares. During the period from April 1, 2001 to March 31, 2002, the TCNZ exchangeable notes are callable at our option at 102.3% of the principal amount and, thereafter and prior to maturity at 101.15%. As of March 31, 2000, no notes have been delivered for exchange.

In August 1998, FSI issued \$3,180 million of 4.25% senior exchangeable notes due on September 15, 2005 (CWC exchangeable notes). The CWC exchangeable notes were issued at a discount and at March 31, 2000 the notes had a carrying value of \$4,719 million, including a cumulative loss on a mark-to-market adjustment of \$1,489 million. The CWC exchangeable notes are exchangeable into 277.6 million ordinary shares of CWC stock at the option of the holder beginning on July 1, 2002. The exchange price was established at a 28% premium to the CWC share price at the pricing date of the offering. Upon exchange by investors, we retain the option to settle in cash or by delivery of CWC shares. The CWC exchangeable notes are redeemable at our option, beginning September 15, 2002, at escalating prices from 104.2% to 108.0% of the principal amount. If the CWC exchangeable notes are not called or exchanged prior to maturity, they will be redeemable at 108.0% of the principal amount at that time.

The CWC and TCNZ exchangeable notes are indexed to the fair market value of each company's common stock. If the price of the shares exceeds the exchange price established at the offering date, a mark-to-market adjustment is recorded, recognizing an increase in the carrying value of the debt obligation and a charge to income. If the price of the shares subsequently declines the debt obligation is reduced (not to less than its amortized carrying value). A proposed restructuring of CWC would change the securities to be delivered upon exchange of the CWC exchangeable notes. Under this restructuring, we would receive shares in the two acquiring companies in exchange for our CWC shares.

At March 31, 2000, the CWC share price exceeded the exchange price, resulting in a cumulative mark-to-market adjustment of \$1,489 million to the carrying value of the CWC exchangeable notes. The increase in the debt liability since December 31, 1999 of \$825 million was recorded as a charge to income in the first quarter of 2000 (\$536 million after-tax). As of March 31, 2000, we have recorded no mark-to-market adjustments for the TCNZ exchangeable notes.

Support Agreements

The TCNZ exchangeable notes have the benefit of a Support Agreement dated February 1, 1998, and the CWC exchangeable notes have the benefit of a Support Agreement dated August 26, 1998, both of which are between Bell Atlantic and FSI. In each of the Support Agreements, Bell Atlantic guarantees the payment of interest, premium (if any), principal and the cash value of exchange property related to the notes should FSI fail to pay. Another Support Agreement between Bell Atlantic and FSI dated October 1, 1992, guarantees payment of interest, premium (if any) and principal on FSI's medium-term notes (aggregating \$956 million at March 31, 2000) should FSI fail to pay. The holders of FSI debt do not have recourse to the stock or assets of our operating telephone subsidiaries or TCNZ; however, they do have recourse to dividends paid to Bell Atlantic by any of our consolidated subsidiaries as well as assets not covered by the exclusion. The carrying value of the available assets reflected in our condensed consolidated financial statements was approximately \$21 billion at March 31, 2000.

10. Segment Information

We have four reportable segments, which we operate and manage as strategic business units and organize by products and services. Our segments are a Domestic Telecom group which provides domestic wireline telecommunications services; a Global Wireless group which provides domestic wireless telecommunications services and includes foreign wireless investments; a Directory group which is responsible for our domestic and international publishing businesses and electronic commerce services; and an Other Businesses group which includes our international wireline telecommunications investments, lease financing and all other businesses.

We measure and evaluate our reportable segments based on adjusted net income, which excludes undistributed corporate expenses and special items arising during each period. Special items are transactions that management has excluded from the business units' results, but are included in reported consolidated earnings.

The following table provides operating financial information for our four reportable segments and a reconciliation of segment results to consolidated results.

(Dollars in Millions)	Three Months Ended March 31,	
	2000	1999
External Operating Revenues		
Domestic telecom	\$6,652	\$6,408
Global wireless	1,292	990
Directory	569	551
Other businesses	22	31
Total segments – reported	8,535	7,980
Reconciling items	(1)	(13)
Total consolidated – reported	\$8,534	\$7,967
Intersegment Revenues		
Domestic telecom	\$ 43	\$ 33
Global wireless	6	4
Directory	1	2
Other businesses	5	4
Total segments – reported	55	43
Reconciling items	(55)	(43)
Total consolidated – reported	\$ 0	\$ 0
Total Operating Revenues		
Domestic telecom	\$6,695	\$6,441
Global wireless	1,298	994
Directory	570	553
Other businesses	27	35
Total segments – reported	8,590	8,023
Reconciling items	(56)	(56)
Total consolidated – reported	\$8,534	\$7,967
Net Income		
Domestic telecom	\$ 893	\$ 892
Global wireless	93	56
Directory	168	162
Other businesses	36	39
Total segments – adjusted	1,190	1,149
Reconciling items	77	3
Special items	(536)	(10)
Total consolidated – reported	\$ 731	\$1,142

Reconciling items include undistributed corporate expenses, corporate assets and intersegment eliminations. We generally account for intersegment sales of products and services and asset transfers at current market prices.

7. Common Stock Buyback Program

On March 1, 2000, our Board of Directors authorized a new two year share buyback program through which we may repurchase up to 80 million shares of common stock in the open market. The Board of Directors also rescinded a previous authorization to repurchase up to \$1.4 billion in company shares.

8. Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting shareowners' equity that, under generally accepted accounting principles, are excluded from net income. For our company, such items consist primarily of foreign currency translation gains and losses and unrealized gains and losses on marketable equity investments.

The components of total comprehensive income for interim periods are presented in the following table:

(Dollars in Millions)	Three Months Ended March 31,	
	2000	1999
Net Income	\$ 731	\$1,142
Other Comprehensive Income (Loss)		
Foreign currency translation adjustments, net of tax	(61)	(18)
Unrealized gains on securities, net of tax	959	3
	898	(15)
Total Comprehensive Income	\$1,629	\$1,127

9. Earnings Per Share

The following table is a reconciliation of the share amounts used in computing earnings per share.

(Dollars and Shares in Millions, Except Per Share Amounts)	Three Months Ended March 31,	
	2000	1999
Net Income	\$ 731	\$1,142
Basic Earnings Per Common Share		
Weighted-average shares outstanding	1,551	1,553
Net income	\$.47	\$.74
Diluted Earnings Per Common Share		
Weighted-average shares outstanding	1,551	1,553
Effect of dilutive securities	24	29
Weighted-average shares - diluted	1,575	1,582
Net income	\$.46	\$.72

Stock options for 21 million shares for the three months ended March 31, 2000 were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares. For the three months ended March 31, 1999, the number of antidilutive shares was 257,726.

11. Proposed Bell Atlantic - GTE Merger

Bell Atlantic and GTE Corporation (GTE) have announced a proposed merger of equals under a definitive merger agreement dated as of July 27, 1998. Under the terms of the agreement, GTE shareholders will receive 1.22 shares of Bell Atlantic common stock for each share of GTE common stock that they own. Bell Atlantic shareholders will continue to own their existing shares after the merger.

We expect the merger to qualify as a pooling of interests, which means that for accounting and financial reporting purposes the companies will be treated as if they had always been combined. At annual meetings held in May 1999, the shareholders of each company approved the merger. The completion of the merger is subject to a number of conditions, including certain regulatory approvals (all of which have been obtained except that of the Federal Communications Commission) and receipt of opinions that the merger will be tax-free.

We are targeting completion of the merger in the second quarter of 2000. In April 2000, we announced that the combined company will be called Verizon Communications.

12. Subsequent Event - Verizon Wireless

On April 3, 2000, we and Vodafone AirTouch plc (Vodafone AirTouch) consummated our previously announced agreement to combine our U.S. wireless assets. Vodafone AirTouch contributed its U.S. wireless assets (including its 50% ownership of PrimeCo Personal Communications, L.P.) and approximately \$4 billion of liabilities to an existing Bell Atlantic partnership (Cellco Partnership, now doing business as Verizon Wireless) in exchange for a 65.1% interest in Verizon Wireless, and we retained a 34.9% interest. It is anticipated that, upon completion of our merger with GTE, the combined company will contribute its interest in the U.S. wireless assets of GTE and increase its interest in Verizon Wireless to 55%. We have announced that we are planning an initial public offering of part of Verizon Wireless later this year.

We will account for this transaction as a purchase method business combination. For accounting purposes, we will consolidate the Verizon Wireless operations because we control its operating and financial policies. Vodafone AirTouch has the right to require Verizon Wireless and us to purchase up to \$20 billion of its interest in Verizon Wireless in several stages between 2003 and 2007.

You should refer to our Current Report on Form 8-K dated April 17, 2000, as amended by a Form 8-K/A dated May 11, 2000, for unaudited pro forma financial information relating to the Verizon Wireless transaction for the period ended December 31, 1999.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Consolidated Results of Operations

In reviewing our operating performance, we discuss our results of operations on what we call an adjusted basis. This means we take our as-reported results and adjust for the effects of special items, which are of a nonoperational nature. We believe that this presentation will assist readers in better understanding Bell Atlantic in terms of trends from period to period. A discussion of these special items, including tables, which illustrate their effects on our consolidated statements of income, follows.

Our results for the first quarter of 2000 reflect strong market demand for voice and data services in our Domestic Telecom business and robust operating performance by our Global Wireless group. We reported net income of \$731 million or \$.46 diluted earnings per share for the three month period ended March 31, 2000, compared to net income of \$1,142 million or \$.72 diluted earnings per share for the three month period ended March 31, 1999. Our reported results for both periods were affected by special items. After adjusting for such items, net income would have been \$1,267 million or \$.80 diluted earnings per share in the first quarter of 2000 and \$1,152 million or \$.73 diluted earnings per share in the first quarter of 1999. The table below summarizes reported and adjusted results of operations for each period.

(Dollars in Millions, Except Per Share Amounts)	Three Months Ended March 31,	
	2000	1999
Operating revenues	\$8,534	\$7,967
Operating expenses	6,329	5,889
Operating income	2,205	2,078
Reported Net Income	731	1,142
Special items - pre-tax		
Mark-to-market adjustment for exchangeable notes	825	--
Merger transition costs	--	17
Total special items - pre-tax	825	17
Tax effect of special items	289	7
Total special items - after-tax	536	10
Adjusted Net Income	\$1,267	\$1,152
Diluted Earnings Per Share - Reported	\$.46	\$.72
Diluted Earnings Per Share - Adjusted	\$.80	\$.73

The following table shows how special items are reflected in our condensed consolidated statements of income for each period:

(Dollars in Millions)	Three Months Ended March 31,	
	2000	1999
Employee Costs		
Merger transition costs	\$ --	\$ 2
Other Operating Expenses		
Merger transition costs	--	15
Mark-to-Market Adjustment for Exchangeable Notes	825	--
Total Special Items - Pre-Tax	825	17
Tax effect of special items	289	7
Total Special Items - After-Tax	\$536	\$10

Mark-to-Market Adjustment for Exchangeable Notes

First Quarter 2000

In the first quarter of 2000, we recorded a loss on a mark-to-market adjustment of \$825 million (\$536 million after-tax) related to our \$3.2 billion notes exchangeable into shares of Cable & Wireless Communications plc (CWC). For the year ended December 31, 1999, we recorded a loss on a mark-to-market adjustment of \$664 million (\$432 million after-tax) related to the CWC exchangeable notes. The mark-to-market adjustments are noncash,

nonoperational transactions that result in an increase in the carrying value of the debt obligation and a charge to income. The mark-to-market adjustments are required because the CWC exchangeable notes are indexed to the fair market value of CWC's common stock. At both December 31, 1999 and March 31, 2000, the price of CWC shares exceeded the exchange price established at the offering date. If the share price of CWC stock subsequently declines, our debt obligation is reduced (but not to less than its amortized carrying value) and income is increased. A mark-to-market adjustment may be recorded monthly, recognizing either a gain or a loss, to reflect the difference between the CWC market price and the exchange price (no adjustment is required if the market price is below the exchange price). The CWC exchangeable notes may be exchanged beginning in July 2002. For additional information about the CWC exchangeable notes, see Note 6 to the condensed consolidated financial statements.

Merger-related Costs

First Quarter 1999

In connection with the Bell Atlantic-NYNEX merger, which was completed in August 1997, we recorded pre-tax transition and integration costs of \$17 million in the first quarter of 1999. These costs consisted of \$16 million related to systems integration and \$1 million for relocation, retraining and other costs associated with integrating the operations of Bell Atlantic and NYNEX. Transition and integration costs were expensed as incurred.

Segmental Results of Operations

We have four reportable segments, which we operate and manage as strategic business units and organize by products and services. Our segments are Domestic Telecom, Global Wireless, Directory and Other Businesses. You can find additional information about our segments in Note 10 to the condensed consolidated financial statements.

We measure and evaluate our reportable segments based on adjusted net income, which excludes undistributed corporate expenses and special items arising during each period. Special items are transactions that management has excluded from the business units' results, but has included in reported consolidated earnings. We previously described these special items in the Consolidated Results of Operations section.

Special items in the three month period ended March 31, 2000 included a loss on a mark-to-market adjustment for exchangeable notes. In 1999, special items included costs associated with our 1997 merger with NYNEX Corporation. Special items affected our segments as follows:

(Dollars in Millions)	Three Months Ended March 31,	
	2000	1999
Domestic Telecom		
Reported net income	\$893	\$882
Special items	--	10
Adjusted net income	\$893	\$892
Global Wireless		
Reported net income	\$ 93	\$ 56
Special items	--	--
Net income	\$ 93	\$ 56
Directory		
Reported net income	\$168	\$162
Special items	--	--
Net income	\$168	\$162
Other Businesses		
Reported net income	\$ 36	\$ 39
Special items	--	--
Net income	\$ 36	\$ 39
Reconciling Items		
Reported net income (loss)	\$(459)	\$ 3
Special items	536	--
Adjusted net income	\$ 77	\$ 3

Reconciling items consist of corporate operations and intersegment eliminations.